

Exhibit No.
Issue: Reason for Rate Case
Witness: W. L. Gipson
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2011-0004
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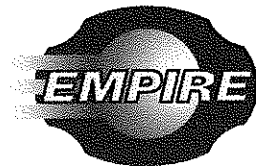
**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

W. L. Gipson

September 2010



SERVICES YOU COUNT ON

DIRECT TESTIMONY
OF
W. L. GIPSON
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. William L. Gipson, 602 S. Joplin Avenue, Joplin, Missouri 64801.

3 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

4 A. The Empire District Electric Company ("Empire" or "Company") is my employer. I hold
5 the position of President and Chief Executive Officer.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

7 A. I hold a Bachelor of Science Degree in Business Management Technology and an Associate
8 Degree in Computer Science from Missouri Southern State College (now University) in
9 Joplin, Missouri.

10 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

11 A. Prior to joining Empire, I worked for an international furniture manufacturing company and
12 a regional bank. I joined Empire as a computer programmer in 1981. I have held positions
13 in Information Services, Economic Development, and Operations. My employment with
14 Empire has been continuous since 1981.

15 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY**
16 **OTHER REGULATORY BODY?**

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1 A. Yes, I have presented testimony before the Missouri Public Service Commission
2 (“Commission”), the Kansas Corporation Commission, the Oklahoma Corporation
3 Commission, and the Arkansas Public Service Commission.

4 **Q. MR. GIPSON, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

5 A. The purpose of my testimony is to give a brief description of the Company, the amount of
6 the rate increase we are requesting and the significant reasons driving the need for the rate
7 increase.

8 **Q. PLEASE DESCRIBE EMPIRE.**

9 A. Empire is a Kansas corporation with its principal office and place of business at 602 South
10 Joplin Avenue, Joplin, Missouri 64801. Empire is engaged in the business of providing
11 electrical utility services in Missouri, Kansas, Arkansas, and Oklahoma; water utility
12 services in Missouri; and, through a wholly-owned subsidiary, has a certificate of service
13 authority issued by the Commission to provide certain telecommunications services. In
14 addition, Empire operates a natural gas distribution business in northwest, north central, and
15 west central Missouri that provides gas service to 44 communities. The gas distribution
16 business is operated by a wholly-owned subsidiary, The Empire District Gas Company.

17 **Q. PLEASE DESCRIBE THE AREA SERVED BY EMPIRE AND GIVE A BRIEF**
18 **DESCRIPTION OF THE CUSTOMERS SERVED.**

19 A. Empire provides electric service in an area of approximately 10,000 square miles in
20 southwest Missouri and the adjacent corners of the states of Kansas, Oklahoma, and
21 Arkansas. Empire's operations are regulated by the utility regulatory commissions of these
22 four states as well as the Federal Energy Regulatory Commission (“FERC”). Empire’s
23 service area embraces 121 incorporated communities in 20 counties in the four-state area.

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1 Most of the communities in the service area are small, with only 29 containing a population
2 in excess of 1,500. Only 10 communities have a population in excess of 5,000, and the
3 largest city, Joplin, Missouri, has a population of approximately 49,000. However, Joplin's
4 daytime population swells to about 270,000, and the population in a 40-mile radius around
5 Joplin is about 400,000.

6 The economy in our service area is diversified. The service territory features small to
7 medium manufacturing operations, medical, agricultural, entertainment, tourism, and retail
8 interests.

9 At July 31, 2010, Empire served approximately 141,732 residential customers, 24,540
10 commercial customers, 357 industrial customers, 2,031 public authority and street and
11 highway customers, and four wholesale customers throughout our system. In Missouri,
12 Empire served 125,740 residential customers, 21,854 commercial customers, 285 industrial
13 customers, 1,663 public authority and street and highway customers, and three wholesale
14 customers as of July 31, 2010. In addition to electric service, Empire also provides
15 regulated water service to approximately 4,500 customers in the Missouri communities of
16 Aurora, Marionville, and Verona, and through its wholly owned subsidiary, The Empire
17 District Gas Company, provides natural gas service to approximately 42,767 gas customers
18 in northwest, north central, and west central, Missouri.

19 **Q. WHAT IS THE AMOUNT OF THE RATE INCREASE EMPIRE IS REQUESTING?**

20 A. Empire is requesting an overall increase in its Missouri retail rates of \$36.5 million,
21 approximately a 9.2 percent increase.

22 **Q. WHY DOES EMPIRE NEED A MISSOURI RETAIL RATE INCREASE AT THIS**
23 **TIME?**

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1 A. The dominant factor driving the need for a Missouri rate increase at this time is the capital
2 additions we have made to our electric system, specifically the Iatan 2 coal fired generating
3 unit, and the increase in annual operating costs that will accompany this unit as it goes into
4 service. A brief history of how Empire got to this point is contained in the guest column that
5 appeared in the September 26, 2010 edition of the Joplin Globe, a copy of which is Schedule
6 WLG-1 to my testimony.

7 **Q. PLEASE BRIEFLY DESCRIBE THE INVESTMENT EMPIRE HAS MADE IN**
8 **IATAN 2.**

9 A. Empire is a 12 percent owner in Iatan 1 and 2, located near Weston, Missouri. Kansas City
10 Power and Light ("KCPL") is the majority owner, builder and operator of both units. Iatan 1
11 was completed in 1980 and recently KCPL completed an upgrade to the Air Quality Control
12 System ("AQCS") at Iatan 1 which went into service on April 19, 2009. Empire's
13 investment in Iatan 2, a new generating unit, is expected to total about \$269 million with
14 annual operating costs of about \$3.4 million and result in a direct ownership of
15 approximately 100 MW of new generation capacity. Empire's investment in Iatan 2 is
16 contemplated by our Experimental Regulatory Plan, which was approved by the
17 Commission in Case No. EO-2005-0263. Empire witnesses Kelly Walters and Blake
18 Mertens will discuss the Iatan 2 construction project and the interplay with the Regulatory
19 Plan in greater detail in their direct testimonies.

20 **Q. HOW HAS EMPIRE MANAGED THE EXTERNAL FINANCING OF IATAN 2**
21 **DURING ITS CONSTRUCTION PHASE?**

22 A. Throughout this long construction and investment cycle that began in February 2006 and
23 included significant investments in Plum Point, Iatan 1 AQCS, and Iatan 2, Empire has

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1 worked diligently to finance these projects in such a way as to minimize the costs to our
2 consumers, control the dilutive effect of new equity issues and maintain the investment
3 grade ratings on our debt. To that end, we issued long-term debt in March 2007, May 2008
4 and March 2009 for \$80, \$90 and \$75 million respectively. In addition, Empire issued new
5 common equity in June 2006 and December 2007 for \$66.8 and \$69 million, respectively.
6 In February 2009 we began a \$60 million Equity Distribution Program, which was expanded
7 to a \$120 million program. Ultimately, \$120 million of new common equity was issued
8 under this program. To support and maintain our investment grade financial profile and to
9 provide a fair and reasonable return to our shareholders, it is imperative that we begin to
10 recover the ongoing costs of the Iatan 2 investment from our customers as soon as possible
11 after the plant goes into service.

12 **Q. HAS EMPIRE RECENTLY ISSUED NEW LONG-TERM DEBT?**

13 A. Yes. Empire took advantage of what we saw as an attractive interest rate environment and
14 floated two new long-term debt issues in 2010. In May of this year we issued 10-year first
15 mortgage bonds for \$100 million that carried an interest rate of 4.65 percent. In August, we
16 issued 30-year first mortgage bonds for \$50 million that carried an interest rate of 5.20
17 percent. Each of these issues has been taken into account in our capital structure in this case
18 and lowered our average cost of debt.

19 **Q. HOW WERE THE BOND PROCEEDS USED?**

20 A. The first bond issue enabled Empire to entirely retire \$50 million of our Trust Preferred
21 Securities which carried an interest rate of 8.50 percent. The annual interest savings
22 associated with the retirement of these securities will run around \$1.9 million and \$19
23 million over the life of the issue. The remaining \$50 million of bond proceeds was used to

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1 reduce our short-term debt balance. The proceeds from the second bond issue in August
2 were used to replace some senior notes that carried an interest rate of 7.05 percent. The
3 replacement of the senior notes will result in annual interest rate savings of slightly over
4 \$800,000, and around \$8 million over the next ten years. All told, our annual interest rate
5 savings for these two issues are \$2.7 million and around \$27 million over the next ten years.
6 Together these two issues have helped to reduce Empire's embedded cost of debt around
7 0.36 percent from that used in the last rate case, which was less than one year ago.

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

9 A. Yes, it does.

AFFIDAVIT OF W.L. GIPSON

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 21st day of September, 2010, before me appeared W.L. Gipson, to me personally known, who, being by me first duly sworn, states that he is the President and Chief Executive Officer of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

W.L. Gipson
W.L. Gipson

Subscribed and sworn to before me this 21st day of September, 2010.

Sherril J. Blalock
Notary Public

My commission expires Nov. 16, 2010

